

State of Nevada
Board for Financing Water Projects
Workshop Minutes

The State of Nevada Board for Financing Water Projects held a workshop on Tuesday, March 13, 2007, at 1:30 pm at Harrah's Hotel & Casino, Sammy's Showroom, 219 North Center Street, Reno, Nevada. (** represents action items)

Board Members Present:

Bruce Scott
Brad Goetsch
Bob Firth
Stephanne Zimmerman

Introductions and Roll Call

Staff Responsibilities
Expectations of the Board

Brad Goetsch: In preparation for the Board meetings, the Board needs:

- project background;
- past record of applicant's compliance with Board's requirements and requirements of the regulations for the grant program;
- applicants financial compliance with previous grants – is the capital reserve account being funded;
- what is the perspective project's priority and category – is it a water quality issue or a deteriorating infrastructure issue or perhaps not a drinking water project but a water conservation project in an irrigation system;
- information on metering and background/history if meters are installed but not being used;
- applicant's payment schedules and fees;
- sustainability of system;
- local area and/or regional cooperation – how are entities working together to share system resources and/or avoid duplication of efforts;
- engineering fees – differences in percent of projects that various engineering firms request;

Bob Firth: How projects that have been given grant funding have performed. Many have come back to the Board for additional funds. We need to make it clear that the projects need to be ready to proceed and need to follow through and see it to completion. Staff and the Board need to look at the applicant's long term plan to assure that elements they are addressing make sense. The Board needs to know how the phases fit together. Applicants need to show and discuss the investigation they have done into other funding – the grant fund should not be the first stop. The Board wants to make the grant funding go as far as it can.

Stephanne Zimmerman: The Board would like to see a breakdown of the rate as it applies to the operating expenses, debt service, capital reserves, etc. This can help to determine if there is

anything left over to help fund the project. The Board wants to see if the communities have tried to help themselves. Look at 5 years of the rate and see how they have handled their money. At the LOI level there should be some summary of what financing the applicant has sought and what reasons they have or have not received that funding – written explanations should be provided.

Bruce Scott: Staff needs to get the Board out in the field as much as possible. The Board meets relatively infrequently, so it is important to remind the Board of policies or previous actions that are relevant to an LOI or grant being presented.

Dana Pennington: The Board needs to recognize that BSDW has only one person that must review these applications and it is an additional duty.

Expectation of Division Management

Adele Basham: If applicants have not sought other funding by the LOI stage, should staff forward that to the Board?

Stephanne Zimmerman & Others: The applicant should explain why they have or have not sought other funding. This needs to be done before the application is sent to the Board. It would be considered incomplete if this has not been addressed by the applicant and should not be forwarded to the Board. There should be some reason why they were turned down for funding and a letter stating such.

Adele Basham: There has been prior Board comment about project management and that the Board expected staff to play a larger role in project management. Leo Drozdoff's view is that staff is not in the position of project manager and it is probably not appropriate.

Bob Firth: Perhaps status reports fulfill some of this expected project management by staff. It could be helpful if there were project milestones included perhaps in the conditions of the funding agreement.

Bruce Scott: If staff is not receiving reports as required, the Board should be informed so that they can take action with the applicant.

Brad Goetsch: It would be good to have a final project summary on how the project cost and timeline came out. Is there a way to give the entities an evaluation of how the project went. Can staff track and perform some evaluation to show who performs well and handles the money well and who does not.

Adele Basham: It might be better to look at the project up front to see if the applicant should be required to hire a project manager. Leo formerly believed the engineer would fulfill that role; however, this has not always worked well. In the past, the grant has paid for project management.

Circumstances under which "Special" Board meetings should be held

Bruce Scott & Others: Staff and the Board Chairman should have most of the flexibility to determine if a special meeting should be held. If there is an emergency or a safety issue, those might constitute a need for a special meeting. Projects that are delayed by the applicant or have

been mismanaged (taking more than a year to spend funds) should not receive a special meeting. There could be a situation where funding may be contingent on receiving grant funding from the state. The Board might be in a position to give them some interim nod and then schedule them for a regular quarterly meeting. Conference calling could be used in lieu of having Board members show up. The public can still attend the conference call at a location noticed prior to the meeting. The AGs office should be involved if staff and the Chairman make a decision on moving money in a grant.

Consistency in Board requirements of water systems in order to be eligible for grant funding (e.g., water rates, MHI, meters, priority class, asset management, grant scale, financials, project management/inspection)

Meters

Bob Firth & Others: The Board concurs that systems should be metered. The Board is becoming more consistent in requiring meters, but has not, yet, required a metered rate. How can the Board know that meters are being used. There is a regulation within the State to have a Water Conservation Plan and meters are part of that plan. Applicants need to have this plan approved before they get grant funding.

If the system does not have meters installed, some of the grant funding could be withheld until meters and a metered rate are actually in place. Meters are usually installed as the distribution system is being installed not after, but it will take time to establish a metered rate. A metered rate helps implement a water conservation program.

Kay Vernatter: The USDA requires meters on projects that they fund. The community can set up a tentative meter rate while they do a local study to get a firm rate. Meters should be installed and read as the project phase is completed.

Board: If a system has meters, they need to provide the Board with a metering program before they received grant funding.

Staff: Perhaps we can tie the meters and/or metering plan to the grant scale. An applicant maybe not be eligible to come to the Board in the future if they failed to implement or use meters paid for with a grant funding from the Board. The grant scale could give higher points for having meters and a metered rate in place prior to applying for a grant, metering in phases, having a metering plan, and/or implementing a tentative meter rate with a final meter rate study is underway.

****Staff and the Board need to update the existing policy on water meters (Policy #14) to capture these ideas and requirements of grantees.**

Pre-Application

Staff recommends that the Board require applicants – both old and new – to go through the INC NWWRC pre-application process so that all funders may help educate applicants on requirement by each of the funding agencies (including meters, metered rate, etc.) and how that may affect the amount of funding each agency could and would extend.

****Staff will generate a policy for review and comment by the Board before the next Board meeting.**

Reasonable Water Rates

Stephanne Zimmerman: The Board should enforce the 1.5% of MHI water rate before grant funding would be given (i.e., before a first draw of grant money). The Board recognizes that the actual water rate may need to be higher than 1.5% of MHI depending on what amount of grant and loan they are eligible for. The MHI used for this determination is a concern to both staff and the Board. The MHI is based on the prior census (currently the 2000 US Census) and only includes primary residences. The Board does not want to be dictating the water rates for communities. Some communities are second home communities or resort communities. The Board would like to know what percentage of connections are primary residences and what percent are second homes or other connections. If the MHI, as determined by the census, is not considering a poor community or is averaging it with a wealthier community, the community can do an income survey and show evidence of a different MHI.

Kay Vernatter: The USDA requires that the income survey be done by an independent party and could be funded through USDA money.

The percentage of second homes could be requested through the application and could affect either the final MHI or the grant scale. PERs would not be subject to the rate requirements.

Grant Scale

Stephanne Zimmerman: Weighting in the grant scale should lower the grant amount for communities with higher MHIs.

The Board would like to see subjectivity in section 3 of the grant scale removed.

With respect to the SRF Priority List Class, staff and the Board should be consistent with systems that might need class 3 (rehabilitation) vs class 2 (chronic health risks) grants. The Board might consider dedicating a portion of the bonding authority to chronic health issues (arsenic, uranium, fluoride, etc.).

****Staff will attempt to narrow down the water systems with chronic health needs and justify a calculation of the amount of money that might be needed to cover arsenic and other chronic health issues. It is recognized that there is some difficulty in figuring out how much individual treatment systems or alternate sources of supply will cost for these systems.**

The USDA can get figures on what distribution system needs might remain out there. Many of these needs have been addressed in anticipation of needing to add treatment for chronic health issues.

****The Board would like to see the interpretation of the grant amount proposed in the statute changed to the absolute numbers shown in the statute. After the Legislative session is over and the changes (if any) to the grant program statutes are finalized, the grant scale will be revisited to change the weighting of some items and add additional factors to the scale. In the interim, staff and the Board will review the existing factors of the grant scale to being the process of developing a more appropriate weighting of the factors so that communities with few resources and who really need grant help, get a maximum benefit from the program.**

Other Items

Staff suggested that conditions of the grant include an asset management plan, project management, and inspections. This allows an expected level of performance and protects the investment made by this program.

Brad Goetsch: There should be some way to provide incentives to promote regional cooperation between water systems, counties and cities, etc. Noting the cost benefit ratios from previous and current grants, a significant amount of money is sometimes spent on a very small number of users. Are there any other solutions that would be more cost effective.

Staff and the Board need to look at the size of equipment funded with grant money. Equipment tends to be oversized for fire flow. Staff should look into the true requirements for fire flow and perhaps talk to the fire marshal in order to analyze what drove that number and what is really necessary for protection. Why not build storage that is necessary for the residential units and have large entities that are driving the oversized facilities put in supplemental fire protection or pay for the over sizing of equipment.

Grant percent for PERs

The Board has tended to give a higher grant percent (85%) to PER grants. The thinking was that if we gave a higher percentage, you would get a higher quality report so that everyone is dealing with good facts. Staff is concerned about engineering estimates that may vary widely for the same type of PER work. Requirements for PERs are spelled out through USDA Bulletin 1780-2 and the INC checklist. The Board suggested that a PER cap might be appropriate and perhaps staff could do the grant scale for PERs; however, the Board was in favor of going with the higher percentage funding but measuring the performance to of the project to the PER. If a grantee has to come back for additional funding due to a poor or incomplete PER, perhaps the grant scale for any additional funding should be lowered.

**The Board suggested that there could be a limit put on PERs of certain types – perhaps this could be a tiered limit considering the type of study necessary (e.g., water treatment with pilot testing, basic rehabilitation of infrastructure, irrigation project, etc.). This idea will be explored in the next NWWRC meeting.

Grant percent for Irrigation / Water Conservation

There is no grant scale that applies to irrigation projects. Irrigation districts have their own statutes. The irrigation districts are old (some structures are close to 100 years old).

**Could we figure out a cost benefit analysis that includes all entities that might benefit from the grant. Nhu Nguyen will work with staff to determine if there are any limitations under AB237 that prohibit implementing a grant scale for irrigation projects. The Board would like to see this before the next Board meeting.

The question came up why this is a grant funded item and not perhaps its own low or no interest revolving loan program.

Consistency in items considered eligible for grant funding (e.g., meters, hydrants, SCADA)

This item was included at the suggestion of one of the water systems in Nevada. The Board expressed concern that some of the items that smaller water systems might request are not made necessary by regulation and may actually be too complicated for the water system to maintain.

Dana Pennington (BSDW) pointed out that the necessary items have evolved over time. The Board and staff would consider the complexity and size of the system in order to determine what items requested are necessary. The elements need to be justified as an integral part of the system – is it a necessary part of the system or a luxury?

Brad Goetsch related this to the number of hydrants in a system that are really necessary and those that are installed to buy down the insurance premiums.

Staff and the Board need to evaluate the need and the benefits of requested elements. If safe drinking water says a project element is necessary, the Board should have the discretion to award grant funding for the element. Other items are at the complete discretion of the Board. The Board does not want to fund elements that cost a lot of money and really will not be used.

Water System Issues (e.g., maintenance, operations, easements, permits, system consolidation, municipal cooperation)

This item was included so that water systems in Nevada could express their individual concerns; however, none were forthcoming.

Staff: The grant conditions should include submitting proper maintenance procedures and should be monitored as a part of our annual review and as a part of the safe drinking water sanitary survey. By including such conditions in the funding agreement, grantees know what is expected of them.

SRF Program Refresher

The Board approves Drinking Water State Revolving Fund (SRF) loan commitments. The SRF program gets money from federal grants and a required state contribution. One requirement of those federal grants includes fund utilization rates. Nevada has a 100% fund utilization rate.

One significant difference between the SRF and the state grants program is that the SRF allows loans for “reasonable” growth, but does not allow loans for growth only. The term “reasonable” is not defined in specific terms.

Recognizing that limited time would be left for this item, Adele Basham prepared a summary sheet on the SRF loan program for the Board.

Brief History of DWSRF

- 1996 Amendments to Safe Drinking Water Act created DWSRF at federal level
- 1997 Nevada Legislature created DWSRF program in Nevada
- 1998 Nevada's program initiated: NACs developed, staff hired, etc.
- 1999 first DWSRF loan to SNWA

Source of Funds

- Annual capitalization grant from USEPA
- 20% state match provided by state bonds that are repaid from loan interest
- Repayments from existing loans (approximately \$90 million in loans committed)

USEPA Grant Requirements

- Federal regulations, grant conditions, etc.
- Fund utilization rate (turn around of money)
- Environmental review
- Intended Use Plan, Priority List

Eligible Applicants

- Publicly owned water systems
- Privately owned water systems
- Federal facilities not eligible

Eligible Projects

- Projects to facilitate compliance with health protection
- Drinking water standards compliance
- Replace aging infrastructure
- Consolidate water supplies
- Refinancing existing debt

Eligible Costs

- Engineering
- Construction of water facilities
- Inspection, construction management
- Land and right-of-way
- Preparation of environmental documents
- Legal and financial services
- Reasonable amount of growth

Ineligible Costs

- Construction or rehabilitation of a dam or reservoir (except finished water)
- Purchase of water rights
- Laboratory fees for monitoring
- Expenses for operation and maintenance
- Project needed primarily for fire protection
- Project solely to serve future growth

Priority List

- Project must be on priority list to be considered for a DWSRF loan

- Pre-application form
- List is ranked
- Board Approves the List

Project Ranking – Ranked within each Class

- Class I Acute Health Risks: demonstrated illness, bacteria, surface water treatment, court order, nitrate
- Class II Chronic Health Risks: drinking water standard violation
- Class III Rehabilitation: deteriorated, substandard, inadequate conditions
- Class IV Refinance

Ranking Methodology

1. Determine Class designation
2. Assign points based on project, per NAC, to determine raw score
3. Adjust raw score for arsenic factor, if applicable
4. Multiply raw rank score by ratio of state to local median household income

The Workshop was adjourned at 5:15pm.